

Lenkowsky, Leslie

From: Kowalczyk, Gary
Sent: Thursday, November 07, 2002 10:07 AM
To: Lenkowsky, Leslie
Subject: Trust Situation

You've asked for an explanation of how it has occurred that we have enrolled more individuals, and approved more slots, for 2001 and 2002 than we originally projected in the 2003 budget, thereby increasing funding requirements for the Trust in 2003. I'm providing this, not to identify excuses for where we are today, but because, as you have pointed out, you are owed an explanation.

In my view, there are several factors that have led to this situation. First, we have never tied slots approved in grants to a specific annual Trust allocation. Why not? This goes to history. In the first two years, the Trust had a budget that assumed that all members would complete service and use the award. As a result, a surplus developed and we then moved to try to include attrition and use of amounts earned as factors in analyzing Trust requirements. Over the years, Congress has adjusted new annual funding based on their assumptions about this surplus. Since 1996, neither the Administration nor the Congress has ever tied new Trust funding in a fiscal year only to new slots in the grants budget. Hence, we developed the practice that said that our controls would be the grant amounts, and that we had the flexibility within the Trust to take account of actual enrollment in prior years in future years' requests.

Second, we have never done the type of historical fill rate analysis, comparable to that done by universities, that you have raised over the last several days. We have started to do it now, but it should have been done in the past. In the past, it was not more sophisticated than we know that not all slots will lead to enrollments, and since we assumed the flexibility identified above, we never said – don't approve more than x slots tied to the following historical fill rate patterns.

Third, we have never budgeted for the Trust in isolation of the grants budget. We have always assumed that we will have the flexibility, at some stage in the process, to do a match between grants and Trust. Over the last two years, and again in 2003, our grants budget is producing more members than we projected with our original grant funds and therefore the Trust budget is inadequate. I had assumed that in 2003 we would have the opportunity to reallocate the additional \$290 million requested by the President, or whatever final amount is provided by the Congress, so that we move more money into the Trust and take money out of the grants budget.

Fourth, I think that from a policy perspective the organization believed that getting to 50,000 members, and subsequently getting to 75,000 members, was important.

What should we do at this point? Although we are setting on an approach that allows us to keep to the 2003 request level for the Trust, I wanted to give you my independent thoughts on this problem.

1. You've already identified the need for controls. Those should be built into the grants review, and the CFO and AmeriCorps should set forth the system to do it, including asking the grants task force to make recommendations.
2. We should cut back the slots approved in the 2002 grants. The question is how much. I think we should not only look at our original 2003 Trust request, but how we can reallocate resources in 2003 (see the next point), in reaching a final decision about 2002. I would not cut 40% (30,800 reduction), or 29% (22,000), of approved slots. I worry that either of these alternatives will cause significant dislocations in the field. I would cut 15,000 slots. Assuming a 90% fill rate, and adding in VISTAs and NCCC, that would produce a Trust enrollment of 60,000 in 2002. It will also produce unused grant funds which will further reduce program fund requirements for 2003.
3. In order to live within an overall budget target for the Corporation (Trust plus grants, not Trust alone), we have to reallocate funds in 2003 from the grants line to the Trust line. That is what we are proposing to do with the \$27 million of prior year funds, and we should do the same in 2003. When someone argues that the Senate will not give you the President's Budget request of an additional x million for grants, then we

need to find out, through negotiations with them, what the bottom line will be, and during those negotiations we need to insist on a balance that will be placed in the Trust and in grants. As we've discussed, the amount for the Trust will also depend on the decisions for 2002. However, if you assume 60,000 Trust enrollments in 2002 and 2003, the Trust requirement will be about \$90 million. [Michelle can verify a final number.] I think we can get that from: the \$27 million from prior years' funds being reallocated, the grant funds not spent as a result of cutbacks in 2002 (we will have to develop an estimate, but this should be at least \$15 million), and then reallocation from the grants line. No one ever assumed that the Trust budget in 2003 would be zero, as it was in 2002, and we should have room to negotiate the mix in grants and Trust funding.

Having set forth this recommendation an approach that goes to 52,000 or 56,000 Trust enrollments in 2002, as we have discussed, are, I agree, viable alternatives.

Finally, there is the managerial question. How did we allow this to happen as an organization? I think it's fair to say that there are a variety of places in the organization that should have insisted upon better controls in this process. But I have clearly had the major responsibility related to the integration of these processes. I developed and recommended the amounts in the budget, including the Trust budget, and participated in the grants review process. I was in a position that should have identified the pending problems. My earlier e-mails on Trust enrollment growth, while recognizing a budgetary impact, did not set forth the full budgetary implications because I assumed that we would resolve the issue in future decisions. You have a right to ask for accountability for the situation, and I'm happy to talk about what that should be.

[For reasons related to the last paragraph, I've not shared this with anyone else.]

Gary